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GRAND UNION

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OUR EIGHTY-SECOND YEAR

1954

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... Letter from the President

TO GRAND UNION SHAREHOLDERS:

Another significant year has been recorded by The Grand Union Company as a result of the loyalty of customers, employees and stockholders, of the company. New records were established in sales, profits and in the number of super markets opened and an important addition to our service area was made by the acquisition of Square Deal Market Company, Inc., operators of Food Fair Super Markets in Washington, D.C., Maryland and Virginia.

SALES

Again this year, as has been true so many times during Grand Union's eighty-two year history, sales exceeded those of the previous year. Sales totaled \$219,452,502 for the fifty-two weeks ended February 26, 1955. This represents an 8.75% increase over sales for fiscal 1953, and is virtually double the sales of the company just six years ago.

EARNINGS AND DIVIDENDS

Earnings after taxes were \$2,872,273 compared with \$2,327,755 for the preceding year, an increase of 23%. Earnings per common share, after the payment of preferred dividends, were \$3.64 per share on the 721,367 common shares outstanding on February 26, 1955, as compared with \$3.09 per share on the 671,788 common shares outstanding on February 27, 1954. Cash dividends amounting to \$1.00 per share and a 5% stock dividend were paid during the year to holders of common stock. Regular dividends of \$2.25 per share were paid to holders of preferred stock.

At a meeting on April 7, 1955 the Board of Directors declared a 4% common stock dividend to be distributed with the regular 25¢ quarterly dividend on May 23, 1955. The Directors also voted to recommend to the stockholders at their regular annual meeting May 25, 1955 a two-for-one split of the authorized and outstanding shares. It is the intention of the Board to place the new stock on an annual dividend rate of 60¢ per share. At a special meeting of stockholders on March 25, 1955, holders of common stock voted to amend the company's certificate of incorporation to increase the authorized common stock from 900,000 shares to 2,000,000 shares.

ACQUISITION AND EXPANSION

Perhaps the most important single event of the year was the acquisition of Food Fair Super Markets in the District of Columbia, adjoining counties in Maryland and the State of Virginia. The addition of this 12-store chain marks the entry of Grand Union into an area which it considers to be one of the fastest growing and most stable population centers in the country. Expansion plans of the former owners will be accelerated by Grand Union and, in time, that area is expected to contribute substantially to the company's overall sales and profit growth.

Grand Union opened thirty-one new markets in the United States during the last fiscal year, the largest number of new units to be opened in any year in the company's history. Thirty-four stores, many of them small service stores, were closed. Both major and minor renovations to markets throughout our entire operating area permitted us to improve our service and make available expanded lines of merchandise to thousands of our customers.

As in the past, continued emphasis was placed on our personnel program. At the start of the fiscal year, Grand Union placed in operation a classroom-on-wheels to supplement its training program. This unique classroom, a house-type trailer specially designed and equipped by Grand Union for training purposes, was used to train an estimated 525 persons. Facilities are included to train employees for work as checkers, bookkeepers and dairy clerks. Results were so satisfactory that a second trailer was ordered and placed in service recently. The company also established a bookkeeping correspondence course, a "first" in the food chain industry.

During the year a Major Medical Plan was initiated, the company's Retirement Plan was liberalized and separated from Social Security, and the Group Life Insurance Plan liberalized. A month-long enrollment drive produced more than a thousand new members in the Group Life Insurance Plan, and over eight hundred in the Hospital-Surgical-Medical Plan. The profit-sharing plan for store managers was amended, increasing the maximum amounts permissible under the plan. A new facet of our employee relations program was originated with the publication of a booklet designed to aid those due for retirement to prepare for their new situation. In the last fiscal year, the names of eighty employees who observed 15, 20 and 25 year anniversaries with Grand Union were added to the rolls of the company's service club.

A number of executive changes were made during the year. Mr. Hugh J. Davern was elected Senior Vice President, Mr. William W. Brady was elected Vice President in charge of Public Relations and Mr. Earl R. Silvers, Jr. was elected Executive Assistant to the President. Mr. Carl W. Shaver was appointed Director of Sales, and Mr. William G. Andrews and Mr. Emerson E. Brightman were named to the newly created positions of Director of Perishable Operations and Director of Grocery-Non Foods Operations, respectively.

SUBSIDIARIES

Early in the year, high coffee prices adversely affected sales and earnings of the Route Division. This coffee situation changed for the better in the last half and was reflected in improved earnings. The introduction of a nationally advertised line of cosmetics has had good consumer acceptance among Route Division customers.

North American Equipment Corporation has increased its sales force in order to have representation in six major metropolitan areas as far west as Chicago, and has instituted an aggressive sales promotion program under the direction of Richard Cowen, recently elected President of this subsidiary.

The former Carroll's Limited chain in the Province of Ontario, Canada, now operated under the name of Grand Union-Carroll's Limited, has had rapid growth since its acquisition in fiscal 1953. During this past year, nine new stores were opened in the Canadian operation, with seven new communities being served for the first time by Grand Union. In addition, a retirement plan was put into operation for Grand Union-Carroll's Limited employees.

HONORS

For the fifth consecutive year, Grand Union was selected by The American Institute of Management as one of the "best managed" companies in this country and Canada. Only fourteen firms were so designated after a survey of more than 4,000 by the Institute.

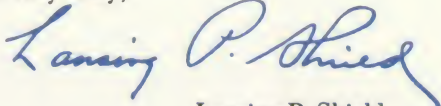
LOOKING AHEAD

The increased number of shares of common stock authorized by shareholders at the special meeting on March 25, 1955 will enable the company to take advantage of opportunities to purchase businesses and properties through the issuance of common stock, when such purchases are considered to be in the company's interest. Present planning indicates that Grand Union will open more new markets in the coming year than in any other year in its history. In addition to sales from new stores, increased sales are expected as a result of an aggressive sales program planned for present stores.

Knowing that in the coming year, the support of stockholders, the loyalty and ability of employees and the experienced counsel of the Board of Directors will be demonstrated to the same degree as in the past, we look with confidence to the future.

April 27, 1955

Yours very truly,


Lansing P. Shield

THE GRAND UNION

ASSETS

Current assets:	Feb. 26, 1955	Feb. 27, 1954
Cash	\$ 4,658,967	\$ 4,285,967
U.S. Government obligations, at cost which approximates market	2,991,864	1,496,205
Accounts receivable, less allowance for losses	1,308,030	1,273,850
Inventories at the lower of cost or market (Note 1):		
Merchandise	17,086,259	14,543,239
Premiums	709,113	606,553
Total current assets	26,754,233	22,205,814
Warehouse and store properties, at cost less allowance for depreciation: 1955, \$254,610; 1954, \$174,473	5,871,689	3,645,653
Fixtures and equipment, at cost less allowance for depreciation: 1955, \$4,602,022; 1954, \$4,280,134	12,492,833	9,265,189
Leasehold improvements in stores and offices, at cost less allowance for amortization: 1955, \$624,288; 1954, \$398,678	1,998,063	1,239,812
Premiums advanced to customers, less allowance for losses	703,741	763,304
Operating and construction supplies	608,998	656,066
Other assets and deferred charges	724,040	378,279
Good will	1	1
	<u>\$ 49,153,598</u>	<u>\$ 38,154,118</u>

NOTES TO FINANCIAL STATEMENTS

1. Cost of inventories is determined as follows: at warehouses, "average" or "first-in, first-out"; at retail outlets, "retail method."
2. The debentures are convertible into common stock at the following principal amounts of debentures for each share of stock: \$45.00 through September 15, 1959, \$47.50, thereafter through September 15, 1964, and \$50.00 thereafter to maturity. The conversion prices are subject to adjustments in certain events, including issuance of common stock dividends and common stock split-ups.
3. Certain of the note agreements and the debenture indenture contain provisions as to the maintenance of working capital and payment of cash dividends. The most restrictive of these provides that consolidated working capital may not be less than \$9,500,000 and that payments for net acquisitions of the company's stocks and for cash dividends will be limited in the aggregate to 75% of net earnings of the company after March 1, 1952. Since March 1, 1952, 75% of the company's net earnings have exceeded such payments by approximately \$2,380,000.
4. In April 1955, the company's authorized common stock was increased to 2,000,000 shares and 49,250 shares of such stock were issued in exchange for all the outstanding capital stock of Square Deal Market Company, Inc. Reference is made to the information in the letter from the President as to the common stock dividend and proposed stock split.

54 COMPANY AND ITS SUBSIDIARIES CONSOLIDATED BALANCE SHEETS

LIABILITIES

Current liabilities:	Feb. 26, 1955	Feb. 27, 1954
Bank loans and acceptances payable	\$ 616,235	\$ 521,349
Promissory notes due within one year	710,000	250,000
Accounts payable and accrued expenses	10,276,661	7,637,840
Provision for federal income taxes	2,716,803	2,258,556
Total current liabilities	14,319,699	10,667,745
Promissory notes (3%-3½%) payable after one year in varying amounts annually through 1968	7,825,000	8,250,000
3½% Convertible subordinated debentures, due 1969 (Note 2) . .	5,451,500	
Other noncurrent liabilities and reserves	473,326	485,399
	<u>\$ 28,069,525</u>	<u>\$ 19,403,144</u>

CAPITAL

4½% Cumulative preferred stock, \$50 par value, callable at \$52 per share; authorized 116,000 shares, issued 115,529 shares . .	\$ 5,776,450	\$ 5,776,450
Common stock, \$10 par value, authorized 900,000 shares, issued 722,024 shares (1955) ; 672,430 shares (1954) (Notes 2, 4 and 5)	7,220,240	6,724,300
Capital surplus, as annexed	4,199,728	3,165,743
Earnings retained for use in the business, as annexed (Note 3) . .	4,088,409	3,284,493
	21,284,827	18,950,986
Less, Treasury stock at cost (Note 8)	200,754	200,012
	<u>\$ 21,084,073</u>	<u>\$ 18,750,974</u>
	<u>\$ 49,153,598</u>	<u>\$ 38,154,118</u>

5. SPECIAL STATEMENTS

5. Under an employees' restricted stock option plan, at February 26, 1955, options to purchase 53,557 shares of common stock at \$24.22, \$24.43, \$25.11 or \$41.98 a share (95% of market price at dates options were granted, adjusted for subsequent stock dividends) were outstanding and 3,640 shares were available for future options. All options expire on or before December 31, 1960. During the past fiscal year, options covering 14,872 shares were exercised at an average price of \$24.34 per share.
6. The company has 158 leases expiring after February 28, 1958. The minimum annual rentals on such leases aggregate approximately \$1,970,000 of which \$1,167,000 applies to leases expiring prior to March 1, 1965 and \$803,000 applies to leases expiring thereafter but prior to 1979.
7. Costs and expenses include depreciation and amortization of \$1,497,855 and \$1,291,294 for the periods ended in 1955 and 1954, respectively.
8. Treasury stock consists of 657 common shares (\$5,061) and 4,533 preferred shares (\$195,693) at February 26, 1955 and 642 common shares and 4,528 preferred shares at February 27, 1954.

1954

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

	Fifty-two Weeks Ended Feb. 26, 1955	Fifty-two Weeks Ended Feb. 27, 1954
Net sales	\$219,452,502	\$201,793,098
Cost of sales	177,879,812	164,362,835
Gross profit	<u>\$ 41,572,690</u>	<u>\$ 37,430,263</u>
Selling, general and administrative expenses:		
Salaries, commissions and bonuses to employees in the sales departments	\$ 19,786,782	\$ 18,430,992
Advertising, delivery and other selling expenses	9,126,024	8,512,474
Rents for retail outlets	2,231,337	1,996,393
Administrative and general expenses	3,327,037	2,794,137
Taxes, including social security, state and local	1,145,373	1,061,114
	<u>\$ 35,616,553</u>	<u>\$ 32,795,110</u>
	\$ 5,956,137	\$ 4,635,153
Other deductions, principally interest expense, net	333,864	232,398
Income before provision for income taxes	5,622,273	4,402,755
Provision for United States and Canadian income taxes	2,750,000	2,075,000
Net income	<u>2,872,273</u>	<u>2,327,755</u>
Retained earnings at beginning of period	3,284,493	2,745,677
	6,156,766	5,073,432
Deduct, Dividends:		
On common stock:		
In cash, \$1 per share	702,180	658,713
In common stock, based on market price on record date	1,116,435	877,756
On 4½% cumulative preferred stock, in cash	249,742	252,470
Earnings retained for use in the business at end of period (Note 3)	<u>\$ 4,088,409</u>	<u>\$ 3,284,493</u>

1954

CONSOLIDATED STATEMENT OF CAPITAL SURPLUS

	Fifty-two Weeks Ended Feb. 26, 1955	Fifty-two Weeks Ended Feb. 27, 1954
Balance, beginning of period	\$ 3,165,743	\$ 2,247,343
Add:		
Excess of retained earnings capitalized in connection with stock dividends over the par value of shares issued	780,665	567,046
Excess of amounts received over par value of shares of common stock issued under employees' stock option plan (Note 5)	213,335	6,881
Excess of market over par value of shares of common stock issued in exchange for investment in Canadian subsidiaries		344,473
Excess of principal amount of convertible debentures converted to com- mon stock over the par value of shares issued (Note 2)	39,985	
Balance, close of period	<u>\$ 4,199,728</u>	<u>\$ 3,165,743</u>

The accompanying notes are an integral part of these statements.

THE **GRAND UNION** COMPANY

100 Broadway, East Paterson, N. J.

OFFICERS

LANSING P. SHIELD, *President*

HUGH J. DAVERN, *Senior Vice President*

GARLAND MILBURN, *Vice President*

WILLIAM H. PREIS, *Vice President*

THOMAS C. BUTLER, *Treasurer*

EARL R. SILVERS, JR., *Executive Assistant to the President*

LOUIS C. WADMOND, *Vice President*

WILLIAM F. DEMPSEY, *Vice President*

WILLIAM W. BRADY, *Vice President*

LLOYD W. MOSELEY, *Secretary*

DIRECTORS

THOMAS C. BUTLER

HUGH J. DAVERN

*LOUIS A. GREEN

IRVING KAHN

*E. CLARK MAUCHLY

GARLAND MILBURN

RAY MORRIS

*JOHN E. RAASCH

*THOMAS J. SHANAHAN

*LANSING P. SHIELD

**Executive Committee*

TRANSFER AGENT

The Chase Manhattan Bank
11 Broad Street, New York, N. Y.

REGISTRAR

The Chemical Corn Exchange Bank
30 Broad Street, New York, N. Y.

AUDITORS' REPORT

The Grand Union Company, East Paterson, New Jersey

We have examined the consolidated balance sheet of The Grand Union Company and its subsidiaries as of February 26, 1955 and the related statements of income and retained earnings and of capital surplus for the fifty-two weeks then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records of the companies (except the Canadian subsidiaries) and such other auditing procedures as we considered necessary in the circumstances. We were furnished with financial statements of the Canadian subsidiaries, together with the reports thereon of Canadian chartered accountants. We made a similar examination for the fifty-two weeks ended February 27, 1954.

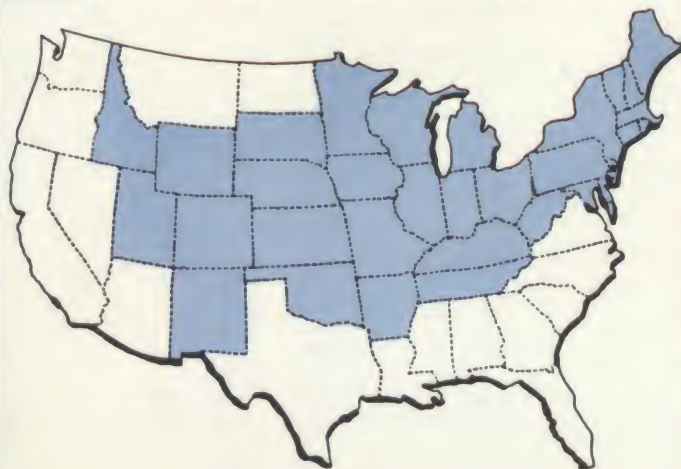
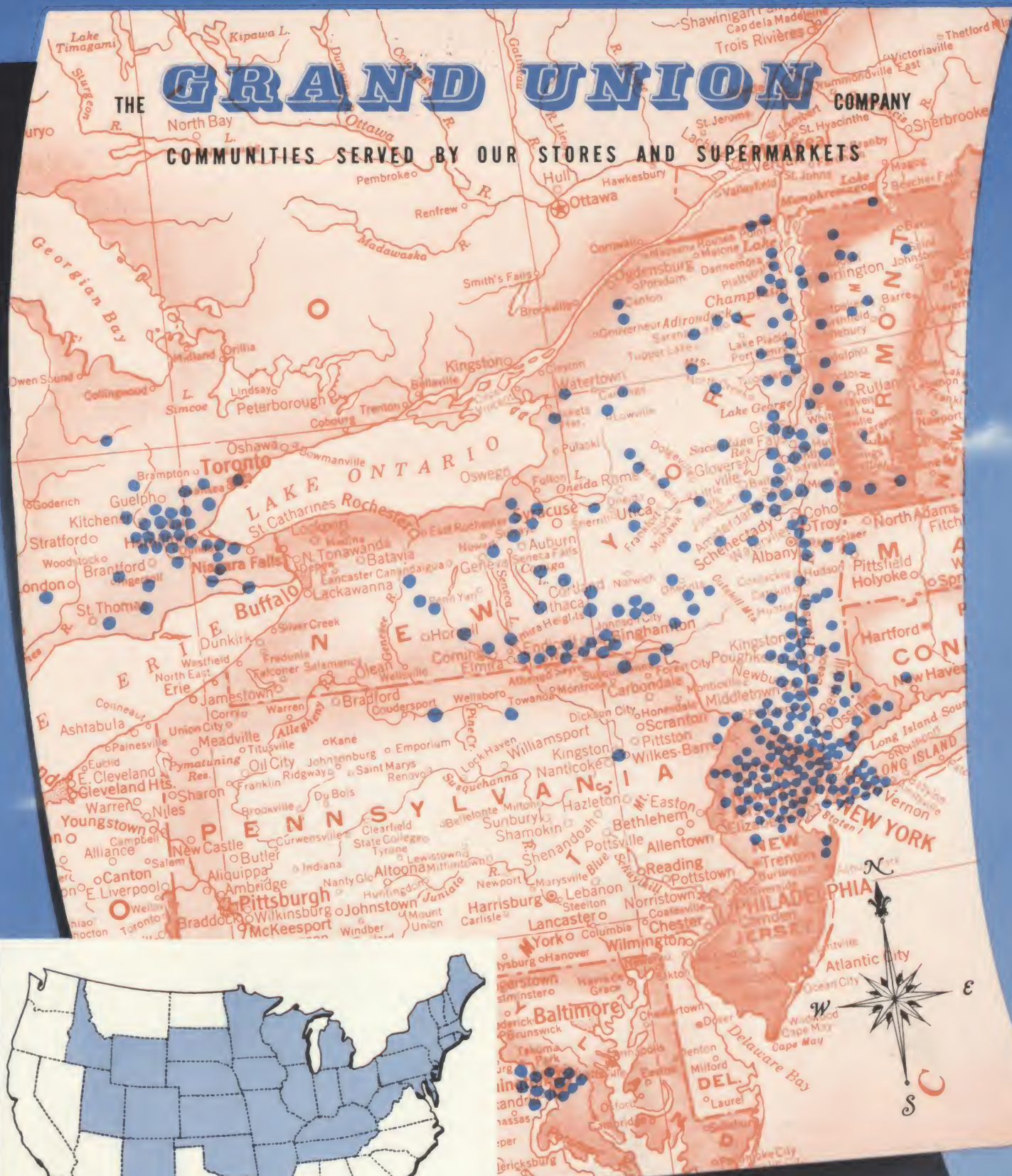
In our opinion, based upon our examinations and upon the above-mentioned reports of other accountants, the accompanying balance sheets and related statements of income and retained earnings and of capital surplus present fairly the consolidated financial position of The Grand Union Company and its subsidiaries at February 26, 1955 and February 27, 1954 and the consolidated results of their operations for the fifty-two week periods then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Lybrand, Ross Bros. & Montgomery ✓

New York, April 18, 1955

THE GRAND UNION COMPANY

COMMUNITIES SERVED BY OUR STORES AND SUPERMARKETS



STATES SERVED BY OUR ROUTE DIVISION